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US Prosperity and the Developing Countries September 1989

Background: During the past 20 years, US prosperity has become increasingly intertwined with that of the developing countries (LDCs). Some LDCs' economies, particularly those of newly industrializing countries and areas such as the Republic of Korea, Brazil, Mexico, Taiwan, Hong Kong and Singapore have grown so large that they have a significant impact on world trade and finance. Achieving sustained noninflationary growth and maintaining open markets in the US are of prime importance to the LDCs' economic well-being, because the US is the world's largest trading nation and a major source of investment funds for developing countries. In turn, economic stability and prosperity in the developing economies provide substantial economic benefits to the US through these trade and investment relationships.

US benefits from LDC prosperity: Developing countries are important markets for US exports and investments. They also contribute to the US economy by supplying critical primary products and a variety of consumer goods.

LDCs purchased more than $95 billion worth--about 40%--of total merchandise exports in 1988. This figure is roughly equal to the previous high of $96 billion worth of exports to LDCs in 1981, after which our exports to these countries diminished sharply. Our growth in exports reflects the lower prices of US products to overseas buyers resulting from the weaker dollar after 1985, the recent recovery of commodity prices for LDC exports, and renewed growth in many developing countries.

LDCs also are an important market for US agricultural goods. Of the $37 billion of agricultural products we exported in 1988, more than $19 billion worth--about 51%--went to LDCs.

It has been estimated that about 70% of bilateral US assistance disbursements and 50% of our contributions to multilateral development banks are spent on US goods and services. In 1988, our total economic assistance to LDCs was $9.8 billion, $6.5 billion of it bilateral. Our economic assistance expenditures last year thus can be expected to generate about $6 billion worth of US exports of goods and services.

In 1988, US private direct investment in the LDCs totaled $77 billion, about 24% of our total private direct investment abroad. Our total investment in LDCs earned US firms $14 billion in income. As the LDCs become more stable and prosperous, they become more attractive to investors, thereby stimulating further economic growth. LDCs able to provide increased opportunities to their people are more likely to be politically and socially stable than poorer countries. Such stability contributes directly to US security and economic interests.

LDCs produce primary products critical to the functioning of the US economy. They supply more than half of our imports of such important

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metals as tungsten, bauxite, tin, and cobalt and provide 100% of the natural rubber, cocoa, and hard fibers we consume.

LDC benefits from US trade: LDCs benefit substantially from their relationship with the US.

Our purchases of goods from LDCs amounted to $166 billion in 1988. Purchases of manufactured goods have nearly tripled--going from $41 billion to $111 billion--between 1982 and 1988.

The US offers preferential duty-free treatment to developing countries in about 3,000 categories under its generalized system of preferences (GSP). In 1988, $18.4 billion worth of goods from 130 beneficiaries entered the US under the GSP. The benefits of this system were extended to the LDCs for another 8 1/2 years, until July 1993, by the Trade Act of 1984.

The US is the largest participant in many multinational financial institutions, including the International Monetary Fund (IMF), the World Bank, and the Inter-American, African, and Asian Development Banks. Because of their substantial resources, multilateral character, professional expertise, and impartiality, the IMF and World Bank are effective in funding LDCs for balance-of-payments reasons and for structural economic reforms, and in encouraging private investment. These cooperating multilateral institutions insist that the LDC borrowers fulfill pro-growth economic performance criteria.

The US remained the world's largest aid donor in 1988, but may soon be overtaken by Japan. Although the US share of Western donor assistance has declined from about 60% in the early 1960s as international cost-sharing has become more equitable, the US still contributes more than a fifth of OECD economic assistance (21% in 1988). In addition, the US share is primarily grant assistance (97% in 1988).

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